

VZCZCXRO7399
RR RUEHDBU RUEHPW RUEHSL
DE RUEHBUL #3186/01 2830646
ZNR UUUUU ZZH
R 100646Z OCT 09
FM AMEMBASSY KABUL
TO RUEHC/SECSTATE WASHDC 2026
INFO RUCNAFG/AFGHANISTAN COLLECTIVE

UNCLAS SECTION 01 OF 02 KABUL 003186

SENSITIVE
SIPDIS

DEPT PASS AID/ANE; AID/EGAT

E.O. 12958 N/A
TAGS: [EAID](#) [ENRG](#) [EINV](#) [PGOV](#) [AF](#)
SUBJECT: Progress in Electricity Sector Commercialization

REF: Kabul 2852

¶1. (SBU) Summary: In a very positive development, the Ministers of Energy and Water, Economy, Finance, and Urban Development, accompanied by Ambassador Wayne and USAID Director Frej, held a signing ceremony on September 30, 2009 to liquidate the state-run power utility Da Afghanistan Breshna Mosesa (DABM) and fully establish the new national electricity utility Da Afghanistan Breshna Sherkat (DABS). Ambassador E. Anthony Wayne and representatives of other international donors sat at the dais with the ministers for the ceremony. The move is a significant breakthrough in Afghan government and donor efforts to modernize and begin to commercialize the national electricity sector. It also came a week before a deadline which would have dissolved DABS if the transfer had not taken place Q- and followed strong lobbying by the U.S. Embassy and other donors. The Afghan governmentQs decision to set up the new utility also supports efforts to meet public enterprise reform and electricity sector subsidy elimination targets established in the IMF-sponsored QComprehensive AgreementQ and other Afghan government commitments. End summary.

Establishment of the New Utility, DABS

¶2. (SBU) The performance of the old government-owned national electricity utility, Da Afghanistan Breshna Mosesa (DABM), was poor (ref). Electricity losses were high, there were extensive instances of customers not paying their bills -Q and reports of personnel skimming off money coming into DABM, and past donor efforts to improve the situation were unsuccessful. Under a Presidential Order signed November 2, 2006, the Afghan government became committed to liquidating DABM and establishing a new corporatized public electricity utility, Da Afghanistan Breshna Sherkat (DABS).

¶3. (SBU) Elimination of the growing energy subsidies is an important objective. Afghan officials are well aware that neighboring Pakistan has not been able to make the same bold step of commercializing its electricity distribution sector, and energy subsidies now consume a significant share of PakistanQs national budget, reducing fiscal space for critical health, education and other priority expenditures. The GIROA decision to proceed with establishing DABS indicates a clear commitment to dealing with this problem thus promoting greater social and economic stability.

Coordinated Donor Engagement

¶4. (SBU) The U.S., World Bank, Asian Development Bank, and other donors actively pushed for the reform. During a July 26 meeting of energy sector donors, USAID advocated for a uniform message on the importance of DABS to the Government of Afghanistan and particularly to two key shareholders: Finance

Minister Omar Zakhilwal and Energy and Water Minister Ismail Khan. In late September, Ambassador Eikenberry advocated for DABS with President Karzai, Ambassador Wayne conferred with Minister Zakhilwal on moving ahead, and a follow up meeting with Minister Khan was held with Ambassador Wayne and USAID Mission Director Frej (septel).

¶5. (U) Bolstered by the international donor community, the Ministry of Finance announced that DABM would be officially transferred to DABS. The Ministers of Finance, Energy and Water, Economy and Urban Development signed the agreement in a public ceremony on September 30, 2009. Ambassador Wayne made remarks during the ceremony along with Minister Zakhilwal, Minister Khan, and Minister of Economy Shams, who serves as the Chief Executive Office for DABS.

- - - - -
Help from International Donors
- - - - -

¶6. (U) The DABS has a competent senior management team and approximately 90 staff, a forward-looking business plan for the current fiscal year, and the commitment of support from the World Bank, ADB, and USAID to help the process of transition.

¶7. (U) USAID's program includes an advisory contract to provide planning and management support to DABS and two additional years of support beginning in November 2009. Additional USAID capacity building resources to support DABS are also available.

KABUL 00003186 002 OF 002

¶8. (U) USAID support of DABS focuses on Kabul to introduce new metering, billing, and collection systems, and new management practices and systems to improve commercial performance and reduce high electricity losses. Improved cost recovery systems will enable DABS to improve the quality of electricity supply, pay operating costs, and to provide incentives for staff. The program does not require rate increases in the near future. With improved commercial performance and service, DABS's Kabul division should achieve cost recovery over a period of 3 to 4 years. Customers will benefit from increased availability, reliability, and safety of power supplies. There will also be a strengthened social compact with the utility in which customers expect to pay and demand a corresponding level of service. Additional USAID support will begin this month to promote commercialization in Kandahar and will work to identify key hardware and management requirements that will result in improved electricity service in this volatile area.

Eikenberry